

**REPORT OF THE AUDIT OF THE  
NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 29, 2004**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE 502.573.0050  
FACSIMILE 502.573.0067**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry Tinch, Nicholas County Judge/Executive

Honorable Leonard Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the Nicholas County Sheriff's Settlement - 2003 Taxes as of May 29, 2004.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Nicholas County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





**REPORT OF THE AUDIT OF THE  
NICHOLAS COUNTY  
SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 29, 2004**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**NICHOLAS COUNTY**  
**SHERIFF'S SETTLEMENT - 2003 TAXES**

**May 29, 2004**

Carpenter, Mountjoy & Bressler, PSC has completed the audit of the Sheriff's Settlement - 2003 Taxes for Nicholas County Sheriff as of May 29, 2004. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$1,406,042 for the districts for 2003 taxes, retaining commissions of \$56,592 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,349,013 to the districts for 2003 Taxes. Refunds of \$10 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.





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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Leonard Garrett, Nicholas County Sheriff

Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the Nicholas County Sheriff's Settlement - 2003 Taxes as of May 29, 2004. This tax settlement is the responsibility of the Nicholas County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nicholas County Sheriff's taxes charged, credited, and paid as of May 29, 2004, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry Tincher, Nicholas County Judge/Executive

Honorable Leonard Garrett, Nicholas County Sheriff

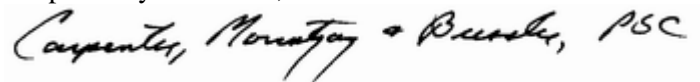
Members of the Nicholas County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2004, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 12, 2004

NICHOLAS COUNTY  
LEONARD GARRETT, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES

May 29, 2004

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 207,558	\$ 180,991	\$ 609,063	\$ 226,272
Tangible Personal Property	6,378	3,925	15,398	17,306
Intangible Personal Property				53,044
Franchise Corporation	26,107	22,259	67,252	
Additional Billings	22	21	64	24
Penalties	2,183	1,970	6,373	2,447
Adjusted to Sheriff's Receipt	(235)	(186)	(689)	(257)
Gross Chargeable to Sheriff	<u>\$ 242,013</u>	<u>\$ 208,980</u>	<u>\$ 697,461</u>	<u>\$ 298,836</u>
<u>Credits</u>				
Exonerations	\$ 298	\$ 267	\$ 875	\$ 325
Discounts	3,061	2,613	8,935	4,542
Delinquents:				
Real Estate	3,085	2,782	9,052	3,363
Tangible Personal Property	296	174	714	866
Total Credits	<u>\$ 6,740</u>	<u>\$ 5,836</u>	<u>\$ 19,576</u>	<u>\$ 9,096</u>
Taxes Collected	\$ 235,273	\$ 203,144	\$ 677,885	\$ 289,740
Less: Commissions *	<u>10,287</u>	<u>6,589</u>	<u>27,115</u>	<u>12,601</u>
Taxes Due	\$ 224,986	\$ 196,555	\$ 650,770	\$ 277,139
Taxes Paid	224,911	196,489	650,556	277,057
Refunds (Current and Prior Year)	<u>75</u>	<u>71</u>	<u>219</u>	<u>82</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ 0</u>

\* and \*\* See Next Page.

The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY  
LEONARD GARRETT, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2003 TAXES  
May 29, 2004  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	655,238
4% on	\$	677,885
1% on	\$	62,919

\*\* Special Taxing Districts:

Library District	\$	(2)
Health District		(1)
Fire District		<u>(2)</u>

Refunds Due Sheriff	\$	<u><u>(5)</u></u>
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NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENT

May 29, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 29, 2004 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

NICHOLAS COUNTY  
NOTES TO FINANCIAL STATEMENT  
MAY 29, 2004  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2003. Property taxes were billed to finance governmental services for the year ended June 30, 2004. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 2003 through May 29, 2004.

Note 4. Interest Income

The Nicholas County Sheriff earned \$311 as interest income on 2003 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of November 12, 2004, the Sheriff owed \$3 in interest to the school district and had overpaid \$6 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Nicholas County Sheriff collected \$10,859 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of November 12, 2004, the Sheriff owed \$47 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Nicholas County Sheriff collected \$231 of advertising costs and \$600 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.



## COMMENTS AND RECOMMENDATIONS



NICHOLAS COUNTY  
LEONARD GARRETT, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 29, 2004

STATE LAWS AND REGULATIONS:

The Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss

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Based on available records, the Sheriff did not execute a bond prior to the collection of 2003 taxes. KRS 134.250 states in part, "The Sheriff shall annually, before he proceeds to collect the county levy, execute bond to the Commonwealth . . . This bond shall be approved by the fiscal court, and when approved, shall be recorded by the fiscal court in its minutes and filed by the fiscal court with the County Clerk."

*Sheriff's Response:*

*None*

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

Lacks Adequate Segregation Of Duties

The internal control structure lacks adequate segregation of duties. There is a limited staff size that prevents adequate division of responsibilities.

*Sheriff's Response:*

*With small office staff, it is hard to do.*

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REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Larry Tincher, Nicholas County Judge/Executive  
The Honorable Leonard Garrett, Nicholas County Sheriff  
Members of the Nicholas County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the financial statement of the Nicholas County Sheriff's Settlement - 2003 Taxes as of May 29, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Nicholas County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Nicholas County Sheriff's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

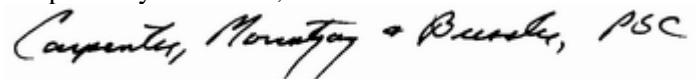
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nicholas County Sheriff's Settlement - 2003 Taxes as of May 29, 2004 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Have Obtained A County Revenue Bond To Protect The County From Potential Loss

This report is intended solely for the information and use of Nicholas County Fiscal Court and management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 12, 2004



